

**Statement of Dr. James Jay Carafano<sup>1</sup>**  
**Senior Research Fellow**  
**The Heritage Foundation**

**Before the House Budget Committee**

Chairman Nussle, Ranking Member Spratt, and other distinguished Members of the committee, thank you for the opportunity to discuss homeland security and defense spending. I want to make three points today. First, we are spending the right amount on defense and homeland security. Second, even though we may begin drawing down forces in Iraq, we need to maintain defense funding levels to prevent returning to the hollow force of the 1970s. Third, Congress needs a set of strategic principles to create a comprehensive approach to homeland security spending, instead of wasting money in a scattershot approach to programming.

**A Short Review of Federal Spending**

With the recent delivery of the President's budget request to Congress, it is time to consider what defense and homeland security funding levels should be. But first, it is important to consider some budget history.

The federal government has expanded substantially during the past century. One of the best measures of the burden that the federal government, as a whole, imposes on the national economy through its spending policies is the percentage of GDP taken up by outlays. During the nation's first 140 years, the federal government rarely consumed more than 5 percent of the GDP. In accordance with the U.S. Constitution, Washington focused on defense and certain public goods while leaving most other functions to the states or the people themselves.

The Great Depression brought about President Franklin Roosevelt's New Deal, a program that expanded government in an attempt to relieve poverty and revive the economy. President Roosevelt created the Social Security program in 1935 and also created dozens of new agencies

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and public works programs. Although the economy remained mired in depression, the federal government's share of the GDP reached 10 percent by 1940.<sup>2</sup>

World War II pushed the United States into the largest war mobilization effort the world has ever seen. From 1940 through 1943, the federal government more than quadrupled in size—from 10 percent of GDP to 44 percent. The enormity of this 34 percent government expansion cannot be understated: An equivalent expansion today would cost \$3.9 trillion, or \$37,000 per household. Even with a top income tax rate of 91 percent, the nation could not fund World War II on tax revenues alone. The nation ended the war with a national debt larger than the GDP (which is three times the size of today's national debt). Following the war, Washington's share of the economy fell back to 12 percent of GDP in 1948.

In the long decades of federal expansion from the end of World War II to former President Ronald Reagan's election, Washington expanded into several new policy areas, creating the Departments of Health, Education and Welfare (in 1953; eventually becoming Health and Human Services), Housing and Urban Development (in 1965), Transportation (in 1966), Energy (in 1977), and Education (in 1979; it had been a part of Health, Education and Welfare).

Federal spending generally fluctuated at just over 20 percent of GDP throughout the 1980s and early 1990s. However, in the last few years spending has sharply increased again as the war on terrorism collided with domestic spending.

### **Changes in the Composition of Federal Spending**

Over time, the composition of federal spending has evolved as well. Between 1962 and 2000, defense spending plummeted from 9.3 percent of GDP to 3.0 percent. Nearly all of funding shifted from defense spending went into mandatory spending (mostly entitlement programs), which jumped from 6.1 percent of GDP to 12.1 percent during that period.

The importance of this evolution cannot be understated. For most of the nation's history, the federal government's chief budgetary function was funding defense. The two-thirds decline in defense spending since 1962 has substantially altered the make-up and structure of the U.S. national defense.

After 28 consecutive years of budget deficits, the 1998 fiscal year ended with a \$69 billion budget surplus. These budget deficits, which had reached 6 percent of GDP in 1983, were eliminated by a combination of three factors: First, real defense spending plummeted by 30 percent in the 1990s as a result of winning the Cold War. Second, tax revenues reached their highest level since World War II as a result of the economic boom. Third, legislative gridlock between Democratic President Bill Clinton and the Republican Congress doomed most new spending initiatives and allowed spending growth to slow to a crawl.

The arrival of budget surpluses, however, saw federal spending accelerating once again. These spending increases went mostly unnoticed because tax revenues continued pouring in at a pace rarely seen in American history, culminating in a \$236 billion budget surplus in 2000.

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<sup>2</sup>Unless otherwise noted, all statistics in this section come from Office of Management and Budget, *Budget of the U.S. Government, Fiscal Year 2005* (Washington, D.C.: U.S. Government Printing Office, 2004).

Between 2001 and 2004, wars with Afghanistan and Iraq were funded by a 48 percent increase in defense spending. Homeland security spending, which had not even existed as a category before September 11, leapt from \$16 billion to \$33 billion.<sup>3</sup> The low defense spending that helped bring balanced budgets in the late 1990s was over.

### **Appropriate Spending Levels**

Although not quite reaching the levels it did under President Lyndon Johnson, federal spending during the war on terrorism has more closely reflected the Vietnam-era spending binges than the spending restraint of World War II and the Korean War. Spending not related to defense and 9/11 increased by an average of 5 percent per year from 2001 through 2003. That two-year, 11 percent increase in non-security spending represents the fastest growth in a decade.<sup>4</sup> At a time when defense and homeland security priorities require especially tight non-security budgets, lawmakers have not made necessary trade-offs, and in fact, have *accelerated* non-security spending growth.

Budgets are about setting priorities, and the central priorities of the federal budget are to defend the American people from external threats and to protect individual's paychecks. We should learn the lessons of the Eisenhower presidency and stick to the economic strategies mapped out by the Bush Administration after 9/11. This requires appropriate funding for defense and homeland security while keeping taxes low. In doing so, policymakers must deal with two truths:

Defense and homeland security spending are critical elements of our nation's future. The world has changed and so must America's security budget. Although defense and homeland security costs dropped to 3 percent of GDP in the 1990s, they have since rebounded to 4.4 percent of GDP—representing a \$160 billion increase. Given the long-term dangers posed by transnational terrorist groups—as well as the proliferation of weapons of mass destruction and other dangers that might arise from aggressor, enabler, or slacker states—American security spending must likely remain at this higher level indefinitely.

### **Preventing Another Hollow Force**

As the Iraqis begin patrolling their country, there will be pressure to cut the military's budget. Congress should maintain funding levels for defense or we risk returning to the hollow force we had after Vietnam.

After Vietnam, Congress moved quickly to downsize the military and cut funding. The Army became a "hollow force" with inadequate troops, training and equipment. By the end of the decade, Army Chief of Staff Edward "Shy" Meyer told President Carter that only four of the service's 16 active divisions stood ready for battle.

The Reserves were even worse off. Recruiting plummeted after the war. Nearly one out of every two volunteers for the new post-draft "all-volunteer force" was a high-school dropout or scored in the lowest category on the Army's intelligence test.

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<sup>3</sup>Heritage Foundation calculations based on data from the Office and Management and Budget and the Congressional Budget Office.

<sup>4</sup>*Ibid.*

I was a lieutenant in the hollow force. When I was commissioned from West Point, our class was told, "It's an OK Army." In a way, this was correct. There was no money to modernize weapons and equipment. That task had been deferred to pay for the war, and units didn't have enough people to train on the equipment, anyway. Even if they had the people to fill the ranks, there wasn't enough money to pay for training and maintenance. It was all OK -- as long as we didn't actually have to fight anybody.

In the 1980s, an adrenalin shot of funding from the Reagan administration saved the services. Some parts of the force, such as the National Guard, still never got the resources they needed, but by the end of the Cold War, after a decade of investment, it again was an Army to be proud of. In 1991, as the operations officer of an artillery battalion in Germany, I sent part of my unit to support Operation Desert Storm. I never worried about them for a minute. They were terrific kids, well-trained and well-armed.

The post-Cold War drawdown took its toll on the military. Defense spending as a percentage of GDP sank to its lowest levels since the outbreak of World War II. The Clinton administration took a prolonged procurement holiday and cut the force to the razor-thin minimum needed to get by.

One presidential term, particularly with all the demand for military forces in the war on terror, wasn't enough to get us the military we needed for the 21st century. And Iraq is making transforming even tougher. Operations are straining the force. Helicopters are wearing out at five times their anticipated rate. Trucks are going into overhaul five times faster than anticipated. America's military is serving the nation well, but it's becoming a tired warhorse. After Iraq, it'll be 1973 all over again. There will be pressure to balance the budget on the back of defense cuts. Pentagon proposals for trimming spending are already floating around Washington like inauguration-parade confetti.

Cutting funding levels before resetting the military for its next mission is a bad idea. The military has been stretched, and it shows. The National Guard alone has had to transfer more than 74,000 soldiers from one command to another just to fill the ranks deploying overseas. Since 9/11, the Army has transferred more than 35,000 pieces of equipment from non-deploying units to forces in Iraq, leaving the stay-behind commands lacking more than a third of their critical equipment. Thus it is critical to maintain sufficient funding levels so the Defense Department has time to refit the force.

### **Principles for Defense Spending**

There are areas where chronic under funding hinders the armed services. For instance, there have been shortages for such programs as vehicle armor, military construction, aircraft survivability equipment, and ballistic missile submarine communications. Sustained budgets are necessary to ensure that America's forces are prepared for the future.

#### **Principle #1: War Spending Should Be Separated from the Regular Defense Budget**

Until the drawdown in Iraq begins, Congress must provide timely supplemental funding. There are multiple reasons for separating war costs from the regular defense budget. First, a war cannot

be run on the budget's schedule. It takes over two years to develop and pass the defense budget. Given the long planning stage, the potential for hold ups, and the inconsistency between the war's schedule and the budget's, it is prudent to bifurcate war spending from regular defense spending. Second, inserting war costs in the regular budget could eat away at critical programmatic funding, thus weakening the military and preventing transformation. Third, by keeping the costs of the war separate from other defense requirements, it will be easier to track just how much we as a nation are spending on the war. Finally, the costs of prosecuting the war have not yet become stable, so it would be very difficult to do the longer range cost projections needed for the budget.

### **Principle #2: Keep Defense Spending at about 4 Percent of GDP**

The United States can reasonably afford to dedicate up to 4 percent of GDP to defense--a level of spending that would be well within historical norms. Given a focused and well-balanced modernization strategy, this level of spending would be adequate to maintain a force capable of protecting U.S. territory and interests today, as well as to field an adequate force in the future.

### **Principle #3: Provide Adequate Money for Training and Readiness, Modernization, and Current Operations**

By definition, a hollow military is one which cannot support training, modernization, and current operations. To avoid returning to that type of military, the Defense Department needs a steady stream of funding at today's levels to allow it to revitalize the nation's forces. If funding cuts begin in conjunction with the draw down in Iraq, the military will not be able to prepare for future operations, restock and update its equipment, while maintaining current operations.

### **Principles for Homeland Security Spending**

Merely disbursing funds to meet many demands risks spending a little on everything and not providing much security for anything. Investing in the wrong priorities can be equally troubling. Congress cannot address homeland security funding in a piecemeal fashion. They must wade through a maze of proposals without losing sight of the big picture. Congress and the administration should agree on a set of strategic guiding principles that will allow smart spending to replace more spending.

### **Principle #1: Build a National Homeland Security System**

The first and highest priority for federal spending must be investments that assist in creating a true national preparedness system--not merely supplementing the needs of state and local governments. Dollars that might be needed to equip every state and U.S. territory with sufficient resources to conduct each critical homeland security task could run into the hundreds of billions. Although the federal government has a responsibility to assist states and cities in providing for homeland security, it cannot service every one of their needs. Indeed, state and local governments are having difficulty absorbing and efficiently using the federal funds that are already available.

Federal funding should focus on programs that will make all Americans safer. That includes providing state and local governments with the capability to integrate their counterterrorism, preparedness, and response efforts into a national system; and expanding their capacity to coordinate support, share resources, and exchange and exploit information. In addition, the

federal government must enhance its own capacity to increase situational awareness of national homeland security activities and to shift resources where and when they are needed.

### **Principle #2: Prepare for Catastrophic Terrorism**

The age when only great powers could bring great powers to their knees is over. Long before 9/11, national security experts argued that modern technology and militant terrorist ideologies are creating conditions that increase the potential for catastrophic attacks--risking tens of thousands of lives and threatening hundreds of billions of dollars in damage. Catastrophic threats will overwhelm the response capacity of any state or local government.

The federal government must be prepared to fund the lion's share of response preparation to these threats. Priorities must be: detecting smuggled nuclear, radiological, chemical, and biological weapons; improving decontamination and medical responses to such dangers; ensuring the protection of critical infrastructure whose destruction might result in catastrophic damage; and harnessing scientific knowledge and tools for counterterrorism efforts.

Assistance on the state and local level should focus on medical surveillance, detection, identification, and communication so that problems can be identified quickly and regional and national resources can be rushed to the scene. Meanwhile, federal programs should be exploring innovative solutions for increasing national surge capacity. Appropriators should support Administration efforts to shift resources from hospital-preparedness grants to more relevant national biomedical-preparedness programs.

### **Principle #3: Get the Biggest Bang for the Buck**

Congress should also direct funding toward programs that provide the greatest contribution to supporting the critical mission areas established by the homeland security strategy. Getting the "biggest bang for the buck" is a worthwhile criterion for guiding spending decisions.

No area deserves more attention than the challenge of maritime security. Estimates for enhancing support security run into the billions of dollars. Lobbying efforts are underway to demand dramatic increases in federal port grants--as much as \$400 million per year. On the other hand, the Administration has proposed limiting port grants in FY 2005 to \$50 million. The government's restraint is appropriate. The infrastructure at U.S. ports is so vast that providing resources for other than the most critical of needs may not be prudent. On the other hand, grant programs have proven far more effective when federal money has been used to encourage public-private partnerships that adopt sustainable and effective port-security programs.

To address the considerable vulnerabilities of maritime infrastructure, the greater share of federal dollars might be more effectively used by investments in effective intelligence and early warning, domestic counterterrorism, and border and transportation security programs. These could help to reduce risks by limiting the opportunities for terrorists to reach U.S. ports.

### **Principle #4: Watch Information Technology Spending**

Congress needs to pay particular attention to homeland security programs with significant IT components. The federal government's track record in developing IT networks is checkered at best. Programs that lack senior leader involvement, well-developed enterprise architectures,

appropriate management and contractual oversight, and effective risk-mitigation strategies often find that results fail to meet expectations or that IT costs balloon out of control--crowding out funding for other critical operational needs.

The Department of Homeland Security is no exception. The DHS Inspector General has already warned that IT management represents a major challenge for the department. Congress must watch these efforts closely.

**Principle #5: Fund Human Capital Programs**

Human capital programs, training, professional development, and career management initiatives often receive far less attention than big-dollar acquisition programs that buy expensive, high-tech equipment. Yet human resources are often far more critical to the long-term development and success of an organization. This dynamic is particularly true for the Department of Homeland Security, which has to wed the culture and skills of over 180,000 personnel from 22 different agencies, activities, and programs into one cohesive, versatile, and effective workforce.

**Principle #6: Consider Non-Homeland Security Funding**

A final concern that must be carefully addressed by Congress is ensuring that homeland security and non-homeland activities covered by the same appropriation are not placed in competition with one another. About one-third of the DHS budget, for example, funds non-homeland security related activities. Additionally, within the department's accounts, many appropriations fund both homeland security and other missions. In some cases, it is virtually impossible to differentiate personnel costs and other general expenses supporting specific activities. Thus, under-funding non-homeland security missions or unnecessarily burdening DHS with non-essential activities could significantly detract from the department's capacity to perform its domestic security tasks.

**Conclusion**

In conclusion, defense and homeland security spending is at a proper level. That level needs to be maintained in the future, once we pull out of Iraq, to allow the military to recover from its recent operations or face creating another hollow military. Finally, homeland security spending should be targeted towards the areas where it will be able to have the greatest impact.

Once again, thank you, Chairman Nussle and the rest of the Committee for holding this hearing and for inviting me to participate. I look forward to answering any question you might have.